

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 USIA-15 AID-05 EB-07  
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01  
L-03 H-02 PA-02 PRS-01 CIAE-00 COME-00 FRB-01  
INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01  
AGRE-00 /115 W

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R 071038Z JUL 77  
FM AMEMBASSY VIENNA  
TO SECSTATE WASHDC 2427  
47\$(3?1/AMEMBASSY BERN 1485  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
USMISSION GENEVA  
USEC BRUSSELS  
USMISSION OECD PARIS

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USOECD PARIS

E.O. 11652: N/A  
TAGS: OECD, EFIN, ETRD, ELAB, AU  
SUBJECT: THE AUSTRIAN ECONOMY AT MID YEAR AND PROSPECTS FOR 1978

REF: VIENNA 4888

1. SUMMARY: JUNE FORECASTS BY AUSTRIAN INSTITUTE FOR ECONOMIC  
RESEARCH (AIER) AND INSTITUTE FOR ADVANCED STUDIES (FORD  
INSTITUTE) (FI) PUT REAL GNP GROWTH FOR 1977 AT 4.5 PERCENT AND  
CONFIRM PRESENT STRENGTH OF AUSTRIAN ECONOMY PREDICTED EARLIER.  
THIS GROWTH WILL BE SUPPORTED BY GREATER-THAN-EXPECTED RISE IN  
DOMESTIC INVESTMENT AND COMSUPTION, ACCOMPANIED BY LOWER  
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RATES OF INFALTION (5.75 PERCENT) AND UNEMPLOYMENT (1.8  
PERCENT). FOREIGN DEMAND FOR AUSTRIAN GOODS AND TOURIST  
SERVICES IS SEEN AS DEVELOPING LESS FAVORABLY THAN ANTI-  
CIPATED, AND PROJECTIONS OF TRADE AND CURRENT ACCOUNT  
DEFICITS HAVE BEEN REVISED UPWARD SIGNIFICANTLY. AIER  
AND FI AGREE THAT AUSTRIA'S MEDIUM TERM ECONOMIC PROPECTS  
HAVE DETERIORATED. FOR 1978, THEY ANTICIPATE REAL GNP

GROWTH TO REMAIN BELOW THE LONGER TERM TREND OF 4.  
PERCENT, AND PREDICT A CONTINUATION OF BALANCE OF PAYMENTS

PROBLEMS. CONTINUED INTERNATIONAL ECONOMIC UNCERTAINTIES,  
HOWEVER, LEAVE CONSIDERABLE MARGIN OF ERROR FOR NATIONAL FORECASTS.  
WHILE FI SUGGESTS LOOSENING OF CLOSE SCHILLING/D-MARK TIE,  
MONETARY AUTHORITIES ARE APPARENTLY DETERMINED TO CONTINUE

"HARD CURRENCY" POLICY.  
END SUMMARY.

2. IN LATEST ESTIMATES OVERALL ECONOMIC GROWTH FORECASTS  
FOR 1977 REMAIN UNCHANGED AT ABOUT 4.5 PERCENT, THE LEVEL  
TO WHICH THEY WERE REVISED UPWARD BY AIER AND FI LAST  
MARCH. HOWEVER, SINCE DEVELOPMENT OF MAJOR GNP COMPO-  
NENTS DURING FIRST QUARTER DEVIATED SUBSTANTIALLY FROM  
PROJECTED PATTERN, BOTH INSTITUTES HAVE REVISED ANNUAL  
FORECASTS FOR SEVERAL AGGREGATES. LATEST ESTIMATES  
(IN PERCENT) FOR AUSTRIA'S MAJOR ECONOMIC INDICATORS IN  
1977, AND FI FORECAST FOR 1978 ARE:

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FM AMEMBASSY VIENNA  
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AMEMBASSY PARIS  
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AIER FORD INSTITUTE

JUNE MARCH JUNE MARCH  
1977 1977 1977 1977 1978

REAL GNP 4.5 4.5 4.4 4.4 3.6  
 REAL GNP 5 5  
 (EXCLUDING AGRICULTURE)  
 PRIVATE CONSUMPTION 5 4 5.2 5.2 4.5  
 (REAL)  
 GROSS INVESTMENT (REAL) 7.5 6.5 8.2 10.5 7.5  
 (EXCLUDING STOCKS)  
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## OF WHICH:

EQUIPMENT (REAL) 12 10.5  
 COMMODITY EXPORTS (REAL) 7.5 10  
 COMMODITY EXPORTS (12.5)(16.5)  
 (NOMINAL)  
 COMMODITY IMPORTS (REAL) 8 6.5  
 COMMODITY IMPORTS (13) (12.5)  
 (NOMINAL)  
 CONSUMER PRICES 5.75 6.25 6.2 6.6  
 EMPLOYMENT GROWTH 2.0 1.8 1.9 1.8  
 UNEMPLOYMENT RATE 1.8 1.9

3. GROWTH OF REAL GNP IN FIRST QUARTER 1977 OF 5.5 PERCENT (6 PERCENT EXCLUDING AGRICULTURE) WAS SUSTAINED BY 5.75 PERCENT RISE IN PRIVATE CONSUMPTION, 8 PERCENT INCREASE IN INVESTMENT, AND VIGOROUS BUILD UP OF INVENTORIES, INCREASINGLY FINANCED BY SOARING EXPANSION OF BANK CREDIT AND LIQUIDATION OF CONSUMER SAVINGS. FOR REMAINING THREE QUARTERS OF 1977 AIER AND FI FORESEE LEVELLING OF GNP GROWTH TO ABOUT 4.25 PERCENT (4.75 PERCENT, WITHOUT AGRICULTURE). SLOWDOWN EXPECTED TO RESULT FROM COMBINATION OF LOWER FOREIGN DEMAND AFFECTING EXPORTS AND TOURISM, AND DAMPENING OF DOMESTIC DEMAND THOUGH RECENTLY IMPOSED AND ANNOUNCED MEASURES AIMED AT CURBING EXCESSIVE IMPORT GROWTH. (SEE REFTEL) FOR 1978, FI PREDICTS SLOWDOWN OF GNP GROWTH TO 3.6 PERCENT, CAUSED MAINLY BY A SLOWER RISE OF PRIVATE CONSUMPTION, INVESTMENTS AND EXPRTS, ACCOMPANIED BY A SLIGHT RISE IN THE INFLATION RATE.

4. THE CONTINUED FASTER GROWTH OF IMPORTS OVER EXPORTS IN FIRST FOUR MONTHS OF 1977, TOGETHER WITH A DECLINE IN THE SURPLUS FROM SERVICES (I.E. DIMINISHED INFLOW OF TOURIST REVENUES AND STEEP RISE IN FOREIGN

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DEBT SERVICE), CAUSED A 51 PERCENT INCREASE IN THE  
DEFICIT ON CURRENT ACCOUNT TO AS 13.4 BILLION, AND A  
14 PERCENT DROP IN FOREIGN EXCHANGE RESERVES.

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INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01  
AGRE-00 /115 W

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R 071038Z JUL 77

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 2429

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

SUMMISSION GENEVA 3428

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AGAINST THIS BACKGROUND, AIER HAS REVISED ITS 1977  
FORECAST OF AUSTRIA'S TRADE DEFICIT (INCLUDEING  
GOLD AND TRANSIT TRANSACTIONS) UPWARD FROM AS 52.3  
BILLION (CALCULATED LAST MARCH) TO AS 58.8 BILLION  
(\$3.5 BILLION) HIGH IS 12 PERCENT ABOVE 1976. THE  
ESTIMATED SUPLUS FROM SERVICES WAS REDUCED FROM AS  
27.7 BILLION (MARCH PROJECTION) TO AS 25.6 BILLION, I.E.  
LESS EVEN THAN THE ACTUAL 1976 SURPLUS OF AS 26.7

BILLION. UNDER THESE CIRCUMSTANCES, THE DEFICIT ON CURRENT ACCOUNT WOULD RISE BY 30 PERCENT OVER THE 1976 LEVEL TO AS 34.2 BILLION RATHER THAN DECLINE AS HAD BEEN PREDICTED ALST MARCH. WITH ESTIMATED NET CAPITAL UNCLASSIFIED

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IMPORTS AND "ERRORS AND OMISSIONS" SUPPLUS LEFT UNCHANGED AT AS 12 BILLION AND AS 10 BILLION, RESPECTIVELY, AIER ARRIVES AT A LIKELY DECLINE OF FOREIGN EXCHANGE RESERVES (EXCLUDING CHANGES IN CURRENCY VALUATIONS) IN 1977 BY AS 12.2. BILLION RATHER THAN BY THE AS 3.7 BILLION FORESEEN IN MARCH.

5. IN ADDITION TO THE TRENDS CITED, THE LATEST FORECASTS REFLECT LARGELY THE FOLLOWING MAJOR FACTORS AND ASSUMPTIONS: (A) GROWTH RATES OF WESTERN INDUSTRIA-

IZED COUNTRIES HAVE BECOME INCREASINGLY DIVERGENT AND WILL TEND TO BE LOWER IN 1977/78 THAN IN 1976; (B) UNEMPLOYMENT WITHIN OECD AREA IS LIKELY TO REMAIN HIGH AND INFLATION REATES WILL NOT DECLINE FURTHER; AND (C) GROWTH OF WORLD TRADE WILL DECELERATE. NATIONALLY,

CONSIDERABLE UNCERTAINTIES EXIST REGARDING (A) IMPLICATIONS OF THE RECENT DEMAND RESTRAINT MEASURES; (B) FUTURE TRENDS IN PRIVATE SAVINGS AND INVENTORIES; AND (C) DEVELOPMENT OF SUMMER TOURISM.

6. ACCORDING TO FI, PERSISTENT DETERIORATION IN THE BALANCE OF PAYMENTS IS CAUSED LARGELY BY STRUCTURAL DEFICIENCIES WITH IHE ECONOMY WHICH CANNOT BE REMEDIED BY SHORT TERM MEASURES. EQUILIBRIUM ON CURRENT ACCOUNT MIGHT BE RESTORED IN THE MEDIUM TERM, IN FIS VIEW, BY CONTINUATION OF RECENTLY ADOPTED ECONOMIC POLICY COURSE (SEE REFTEL). FI SUGGESTS THAT AUSTRIAN CURRENCY SHOULD NEITHER BE DEVALUED NOR ALLOWED TO APPRECIATE FURTHER. THE CLOSE TIES BETWEEN SCHILLING AND D-MARK SHOULD BE LOOSENED AND ORIENTATION OF AUSTRIAN CURRENCY TO A BASKET OF CURRENCIES OF THE UNCLASSIFIED

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COUNTRY'S MOST IMPORTANT TRADING PARTNERS RESUMED.

7. COMMENT: AUSTRIAN NATIONAL BANK (ANB) PRESIDENT KLOSS IMMEDIATELY WARNED THAT LOOSENING SCHILLING/ D-MARK TIES WOULD CAUSE DE FACTO DEVALUATION OF THE

SCHILLING AND ENCOURAGE SPECULATION; THUS IT WILL BE  
NECESSARY TO CONTINUE THE "HARD CURRENCY" POLICY.  
THE SUGGESTED CHANGE IN AUSTRIA'S EXCHANGE RATE POLICY  
HAS PROMPTED INDUSTRY SPOKESMEN TO RENEW THEIR PRESSURES  
FOR THIS, ARGUING THAT RELAXATION OF AS/DM TIES WOULD  
NOT BE TANTAMOUNT TO ABANDONMENT OF A "HARD CURRENCY"  
POLICY. IT SEEMS LIKELY THAT AT LEAST DURING THE  
SUMMER SEASON WHEN THE AUSTRIAN CURRENCY TRADITIONALLY  
STRENGTHENS IN RESPONSE TO HIGHER TOURIST DEMANDS,  
NO CHANGE IN AUSTRIAN EXCHANGE RATE POLICY IS TO BE  
EXPECTED. HOWEVER, WE WOULD NOT RULE OUT THE  
POSSIBILITY OF SOME DISTURBANCE IN THE EXCHANGE  
MARKET. MEEHAN

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
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**Original Handling Restrictions:** n/a  
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**Page Count:** 6  
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**Type:** TE  
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US Department of State  
EO Systematic Review  
22 May 2009  
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